

SOUTHEAST EDUCATIONAL SERVICE CENTER

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

**SOUTHEAST EDUCATIONAL SERVICE CENTER
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FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

Board of Superintendents
Southeast Educational Service Center
Price, Utah 84501

We have audited the accompanying financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Southeast Educational Service Center, as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southeast Educational Service Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southeast Educational Service Center as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 9 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2006, on our consideration of Southeast Educational Service Center's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the statements that collectively comprise Southeast Educational Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

November 22, 2006

**SOUTHEAST EDUCATIONAL SERVICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

As management of the Southeast Educational Service Center (Service Center), we offer readers of the Service Center's financial statements this narrative discussion, overview, and analysis of the financial activities of the Service Center for the fiscal year ended June 30, 2006 and comparison information for the fiscal year ended June 30, 2005. All of the financial activity results from governmental activities. The Service Center does not have any "business-type" activities.

FINANCIAL HIGHLIGHTS

- ❖ The Service Center's net assets decreased \$75,682 as a result of this year's operations. Net assets of our governmental activities (the only activity that the Service Center has) decreased by 12.1 percent.
- ❖ Total expenses of \$1,470,870 were \$626,008 more than the program revenues received of \$844,862 for governmental activities.
- ❖ Federal and state revenue, not restricted to a specific purpose, for the year ended June 30, 2006 was \$549,126. This was an increase of \$87,973 from the year ended June 30, 2005.
- ❖ The General Fund reported a decrease of \$22,154 in the fund balance. The General Fund reported an increase of \$107,061 for the year ended June 30, 2005. This is a difference of \$129,215.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports; Statement of Net Assets and the Statement of Activities (on pages 10 and 11) provide information about the activities of the Service Center as a whole and present a long-term view of the Service Center's finances. Fund financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Service Center's operations in more detail than the government-wide statements by providing information about the Service Center's most financially significant funds.

REPORTING THE SERVICE CENTER AS A WHOLE

Our analysis of the Service Center as a whole begins on page 10. The Statement of Net Assets and Statement of Activities report information about the Service Center as a whole and about its activities in a way that helps determine if the Service Center is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Service Center's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the Service Center's financial position. Increases or decreases in the Service Center's net assets are one indicator of whether the financial position of the Service Center is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the Service Center shows all of the activities in one fund:

Governmental activities—All of the Service Center's basic services are reported here, including the general and administration cost and operation and maintenance of facilities. Operating grants, contributions and Federal and State revenues finance most of these activities.

Reporting the Service Center's Most Significant Funds

Our analysis of the Service Center's major fund begins on page 12. The fund financial statements begin on page 12 and provide detailed information about the most significant fund. Some funds are required to be established by State law and by bond covenants. The Service Center established a General fund to help it control and manage money and to show that it is meeting legal responsibilities for using Federal and State funds. The Service Center is operated with governmental funds, which use a different accounting approach.

Governmental funds—All of the Service Center's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Service Center's programs. We describe the relationship or differences between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation on page 13 of the financial statements.

The Service Center as Trustee

The Service Center does not hold any funds or property in a trustee capacity. Consequently, no trustee information is required to be presented.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Service Center's finances, in a manner similar to private-sector business. The Service Center's Statement of Net Assets, which decreased during the current calendar year, presents information on all of the Service Center's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how the Service Center's net assets changed during the most recent fiscal year. The government-wide financial statements include the Service Center and no other component units, because it has been deemed that the Service Center is not financially accountable for any other entity. The analysis on the next page, focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Service Center's governmental activities.

Government-Wide Financial Statements (Continued)

Table 1
Net Assets

	Governmental Activities June 30, 2005	Governmental Activities June 30, 2006
Current and other assets	\$ 567,914	\$ 514,551
Capital assets	311,963	266,470
Total assets	\$ 879,877	\$ 781,021
Current liabilities	\$ 178,839	\$ 155,665
Total liabilities	\$ 178,839	\$ 155,665
Net assets:		
Invested in capital assets, net of debt	\$ 311,963	\$ 266,470
Unrestricted	389,075	358,886
Total net assets	\$ 701,038	\$ 625,356

Net Assets of the Service Center's governmental activities decreased by 12.1 percent, (\$625,356 compared to \$701,038). *Unrestricted* net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—is \$358,886 at the end of the fiscal year. These net assets are used to finance the continuing operations of providing services to the Service Center.

This is the Service Center's third year of implementing GASB 34 reporting requirements. Making comparisons of the Service Center's changes and growth or reduction to prior years will begin to reflect true comparative figures. The MD&A for the fiscal year ending 2006 will contain those discussions and a comparative analysis of government-wide data.

Table 2
Changes in Net Assets

	Governmental Activities June 30, 2005	Governmental Activities June 30, 2006
Revenues		
Program Revenues:		
Operating grants and contributions	\$ 1,091,953	\$ 844,862
General Revenues:		
Federal and state aid	461,153	549,126
Miscellaneous		1,200
Total revenues	<u>\$ 1,553,106</u>	<u>\$ 1,395,188</u>
Program Expenses		
Supporting services - administration	\$ 1,139,441	\$ 1,204,411
- operation/maintenance	304,904	266,459
Total expenses	<u>\$ 1,444,345</u>	<u>\$ 1,470,870</u>
Change in net assets	<u>\$ 108,761</u>	<u>\$ (75,682)</u>
Net Assets - beginning	\$ 592,277	\$ 701,038
Net Assets - ending	<u>701,038</u>	<u>625,356</u>
Change in net assets	<u><u>\$ 108,761</u></u>	<u><u>\$ (75,682)</u></u>

The Service Center's operational goals for future years is to continue to strive to use the allotted funds in the best interest of the Service Center and those who are served by the Service Center's operations. As revenues increase, the funds will be used to purchase necessary supplies and equipment that are appropriate and deemed beneficial.

Governmental Activities

Revenues, for the Service Center's governmental type (general fund), decreased by 10.2 percent, while total expenses decreased 2.0 percent. Operating grants and contributions decreased substantially and Federal and State aid increased slightly. The largest source of funds for the current year was Federal aid in the form of operating grants. Net assets for governmental activities decreased \$75,682.

The cost of all governmental activities this year was \$1,470,870. As shown in the Statement of Activities on page 11, the amount that Federal and State aid revenue ultimately paid, for these activities, was substantial, because costs exceeded the operating grants and contributions by \$626,008. These Federal and State funds are essential to continue the operations of the Service Center. Overall, the Service Center's governmental program revenues, including operating grants and contributions, decreased in fiscal year ending June 30, 2006 from \$1,091,953 to \$844,862.

Costs of the Service Center's are all centered within one program—general government. The net cost of expenditures (over) or under specific program revenues shows the financial burden that utilizes the Federal and State aid and other miscellaneous revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Service Center did not revise their budget. The original budget was adopted on June 1, 2005. Additional revenue from some grants was received.

The actual charges for expenditures were \$1,417,342, which was \$458,658 above the budgeted amounts. The most significant negative variance of (\$292,108) occurred in service center administration.

Resources for revenues were \$1,395,188, which was \$428,915 above the budgeted amount. The most significant positive variance of \$346,882 occurred in federal grants.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2006, the Service Center had \$266,470 invested in a broad range of capital assets, including land, buildings, improvements other than buildings, and equipment (see Table 4 on the next page). This amount represents a net decrease (including additions and deletions) of \$45,493, or a 14.6 percent decrease over the previous year.

Table 4
Capital Assets at Year-End
(Net of Depreciation)
June 30, 2006

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>June 30, 2005</u>	<u>June 30, 2006</u>
Land	\$ 10,000	\$ 10,000
Buildings	121,125	116,375
Improvements other than buildings	8,593	7,928
Machinery and equipment	<u>172,245</u>	<u>132,167</u>
Total assets governmental activities	<u>\$ 311,963</u>	<u>\$ 266,470</u>

This year's major addition includes:

Telephone system	\$ 9,309
Vehicle	15,264
Paid with operating grants	

The Service Center's fiscal year 2007 capital budget calls for spending on capital expenditures, principally for purchases of technology equipment. More detailed information about the Service Center's capital assets is presented in Note 4 to the financial statements.

Long-term debt

As of June 30, 2006, the Service Center did not have any long-term debt incurred or outstanding.

ECONOMIC FORECAST AND FUTURE BUDGET

The Service Center's "educational service(s)" mission is funded for FY '07 primarily from the Utah State Office of Education and Utah Educational Network. These amounts are awarded annually for on-going efforts; the USOE award (\$324,981) is used to support a director, a technology director, a reading specialist, office manager, a film depository, maintaining offices, maintaining equipment, utilities, etc. UEN supports specific functions relating to digital technology (\$135,605): help desk technician, regional technology integration specialist, servers, computer networks, etc. The levels of these primary support amounts are generally constant across years. Other smaller sources of revenue include District (\$10,000). The above activities are anticipated to be ongoing with ongoing support at levels consistent with that received in recent years.

ECONOMIC FORECAST AND FUTURE BUDGET (Continued)

In addition to the Educational Service(s) mission above, the Service Center has been successful in responding to Requests for Proposals (RFPs) from state and federal funding sources. The resulting awards and their approximate funding levels are reported below:

- State Awards
 - UTIPS Maintenance and Support \$55,000
 - Federal Awards **
 - Merit (supporting students/universities during student teaching) \$1,421,049
 - Tri-State History Grant Developing History Teachers Skills \$1,000,158
- ** (3 year grants—FY '06 was year 3)

In the near future, the Service Center will be moving toward projects focusing more specifically on K-12 education within the State of Utah and southeastern region. The Merit project (federal) will close October 2006; a "no cost extension" has been obtained through July 1, 2007. The Tri-State History grant will similarly close October 2006, and the Service Center has obtained a "one year no cost extension" through October 2007. No new federal level projects are anticipated at this time. Thus, over the next three years, it is anticipated that the Service Center's focus will become more state and regional.

CONTACTING THE SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our school district's with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Service Center's Administrator at 685 East 200 South, Price, Utah 84501.

SOUTHEAST EDUCATIONAL SERVICE CENTER
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
 <u>ASSETS</u>	
Cash	\$ 212,145
Due from other governments	302,406
Capital assets (net of accumulated depreciation)	
Land	10,000
Building and improvements	124,303
Machinery and equipment	132,167
	<hr/>
Total assets	\$ 781,021
	<hr/>
 <u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:	
Accounts payable	\$ 116,734
Accrued liabilities	1,002
Deferred revenue	18,313
Compensated absences	19,616
	<hr/>
Total liabilities	\$ 155,665
	<hr/>
NET ASSETS:	
Invested in capital assets	\$ 266,470
Unrestricted	358,886
	<hr/>
Total net assets	\$ 625,356
	<hr/>
Total liabilities and net assets	\$ 781,021
	<hr/>

"The notes to the financial statements are an integral part of this statement."

**SOUTHEAST EDUCATIONAL SERVICE CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental activities:				
Supporting Services:				
Service center administration	\$ 1,204,411		\$ 844,862	\$ (359,549)
Operation and maintenance of facilities	266,459			(266,459)
Total governmental activities	\$ 1,470,870	\$...	\$ 844,862	\$ (626,008)
General Revenues:				
Federal and state aid not restricted to specific purpose				\$ 549,126
Miscellaneous				1,200
Total general revenues				\$ 550,326
Change in net assets				\$ (75,682)
Net assets - beginning				701,038
Net assets - ending				\$ 625,356

"The notes to the financial statements are an integral part of this statement."

SOUTHEAST EDUCATIONAL SERVICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

GENERAL
FUND

ASSETS

Cash	\$ 212,145
Due from other governments	302,406
	<hr/>
Total assets	\$ 514,551
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable	\$ 116,734
Wages and benefits payable	1,002
Deferred revenue	18,313
	<hr/>
Total liabilities	\$ 136,049
	<hr/>

FUND BALANCE:

Unreserved	\$ 378,502
	<hr/>
Total fund balance	\$ 378,502
	<hr/>
Total liabilities and fund balance	\$ 514,551
	<hr/> <hr/>

"The notes to the financial statements are an integral part of this statement."

SOUTHEAST EDUCATIONAL SERVICE CENTER
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental fund types:	\$	378,502
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Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.

Land, Building and improvements, and Machinery and equipment costs of \$639,353 and the accumulated depreciation is \$382,883.		266,470
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Governmental funds do not report the effect of compensated absences until financial resources of the governmental fund are consumed in their payment, therefore they are not recorded as liabilities.

Compensated absences		(19,616)
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Net assets of governmental activities	\$	625,356
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"The notes to the financial statements are an integral part of this statement."

SOUTHEAST EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>GENERAL</u>
REVENUES:	
Intergovernmental	\$ 198,626
State aid	343,198
Federal aid	852,164
	<hr/>
Total revenues	\$ 1,393,988
	<hr/>
EXPENDITURES:	
Current:	
Supporting services:	
Service center administration	\$ 1,193,363
Operation and maintenance of facilities	223,979
	<hr/>
Total expenditures	\$ 1,417,342
	<hr/>
Excess of revenue over (under) expenditures	\$ (23,354)
	<hr/>
OTHER FINANCING SOURCES (USES):	
Sale of fixed asset	\$ 1,200
	<hr/>
Excess of revenues and other sources over (under) expenditures and other uses	\$ (22,154)
	<hr/>
FUND BALANCE - beginning of year	400,656
	<hr/>
FUND BALANCE - end of year	\$ 378,502
	<hr/> <hr/>

"The notes to the financial statements are an integral part of this statement."

**SOUTHEAST EDUCATIONAL SERVICE CENTER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ (22,154)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$24,573) was exceeded by depreciation (\$67,052) in the current period.	(42,479)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(3,014)
In the statement of activities, certain operating expenses -- compensated absences (vacations) -- are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During this year, vacation payable increased by \$8,035.	(8,035)
Change in net assets of governmental activities	\$ (75,682)

"The notes to the financial statements are an integral part of this statement."

**SOUTHEAST EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES:				
Intergovernmental	\$ 147,000	\$ 147,000	\$ 198,626	\$ 51,626
State	313,991	313,991	343,198	29,207
Federal	505,282	505,282	852,164	346,882
Miscellaneous			1,200	1,200
Total revenues	\$ 966,273	\$ 966,273	\$ 1,395,188	\$ 428,915
EXPENDITURES:				
Supporting services:				
Service center administration	\$ 901,255	\$ 901,255	\$ 1,193,363	\$ (292,108)
Operation and maintenance of facilities	57,429	57,429	223,979	(166,550)
Total expenditures	\$ 958,684	\$ 958,684	\$ 1,417,342	\$ (458,658)
Excess of revenues over (under) expenditures	\$ 7,589	\$ 7,589	\$ (22,154)	\$ (29,743)
Fund balances - beginning of year	400,656	400,656	400,656	
Fund balances - end of year	<u>\$ 408,245</u>	<u>\$ 408,245</u>	<u>\$ 378,502</u>	<u>\$ (29,743)</u>

"The notes to the financial statements are an integral part of this statement."

**SOUTHEAST EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southeast Educational Service Center exists to provide services needed and requested by the schools and school districts in the Counties of Carbon, Emery, Grand, and San Juan. The goal is to provide equity with the more populous parts of the state through leadership activities and cooperative cost saving services. The need for a rapidly expanding school system in the state has heightened the need for an electronic approach to education. The Service Center provides leadership for the expansion of technology into the schools in this region. The governing body of Southeast Educational Service Center consists of the school district superintendents of Carbon County, Emery County, Grand County, and San Juan County. A full time administrator who reports directly to the Service Center Board directs the Service Center.

The accompanying statements of the Service Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include organizations, activities, and functions that comprise the Service Center. Component units are legally separate entities for which the Center (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Center's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Center. Using these criteria, the Service Center has no component units.

B. Government-Wide Financial Statements

Generally accepted accounting principles (GAAP) require that state and local governments provide a government-wide statement of net assets and a government-wide statement of activities. These government-wide financial statements are required to be presented using the economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers who purchase, use, or directly benefit from goods, services, or

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **Government-Wide Financial Statements (Continued)**

privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The statement of net assets is the basic government-wide statement of position that presents all of the Service Center's permanent accounts (assets, liabilities, and net assets).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Board to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, early retirement, and claims and judgments, are recorded only when payment is due.

The Service Center reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Service Center. It is used to account for all financial resources, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Amounts reported as *program revenues* include 1) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than program revenues.

When both restricted and unrestricted resources are available for use, it is the Service Center's policy to use restricted resources first then unrestricted resources, as needed.

D. **Assets, Liabilities, and Net Assets or Equity**

1. **Cash and Cash Equivalents**

The Service Center's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

2. **Capital Assets**

Capital assets, which include land, building and improvements, and machinery and equipment, are reported in the government-wide financial statements. The Service Center defines capital assets as assets with an initial individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the Service Center is not included as part of the capitalized value of the assets constructed.

Building and improvements, and equipment and machinery of the Service Center are depreciated using the straight-line method over the following estimated useful life:

<u>Assets</u>	<u>Years</u>
Building	40
Improvements	20
Equipment and machinery	5

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Compensated Absences

Compensated absences have been figured for the Service Center based on the following information. The actual liability for vacation has been computed using the current pay rate per day for each day of vacation. The actual liability for sick days has been computed using the Service Center's policy that allows employees to be paid \$15.00 a day for sick days accumulated up to 140 days and \$45 per day for days accumulated over 140 days. The liability that is recorded could be potentially greater if the employee's current pay rate per day was used for each sick day accumulated. The Service Center upholds the current figuring of compensated absences because of the inability to project unforeseen amounts that might become a liability from employees using sick days.

4. Net Assets and Fund Balance

Net assets on the Statement of Net Assets include the following: (1) Investment in Capital Assets – The component of net assets that reports the difference between capital assets less the accumulated depreciation; and (2) Unrestricted – The difference between the assets and liabilities that is not reported in Net Assets Invested in Capital Assets.

5. Receivables

Receivables in the governmental fund type consist of requests for reimbursements of eligible expenses on grants awarded to the Service Center. These reimbursements come from other governments where collectibility is reasonably assured.

2. DEPOSITS AND INVESTMENTS

Depositing and investing for the Service Center is governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The Service Center follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Service Center's funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

2. DEPOSITS AND INVESTMENTS (Continued)

Deposits

The Service Center maintains a cash account that maintains all of the funds of the Service Center.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Service Center's deposits may not be returned to it. The Service Center does not have a formal deposit policy for custodial credit risk. At June 30, 2006, the Service Center's bank balance of cash on deposit was \$212,145, of this amount \$100,000 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Service Center and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Service Center to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, the District did not have any investments.

2. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Service Center's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter-party, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center does not have a formal policy for custodial credit risk. As of June 30, 2006, the District did not have any amounts invested.

3. BUDGETING

The system of budgeting used by the Service Center complies with the procedures outlined in the "State of Utah Uniform Accounting Manual for Special Districts," which is in accordance with generally accepted accounting principles. Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at year-end.

The Service Center follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. A formal budget is adopted for the General Fund by the Service Center.
2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. The budget must balance, that is, estimated revenues and other financing sources must equal appropriated expenditures.
3. The Board discusses and approves a tentative budget prior to May 1.
4. The budget is a public record and is available for public inspection.
5. By June 30, the Board adopts the budget by resolution. A copy of the budget is filed with the State Auditor within thirty days of adoption. A copy of the budget is available for public inspection.
6. The Board can transfer budgeted amounts between line items or departments by resolution, but any action that increases the total General Fund budget must be approved by resolution.

4. **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Adjustments and Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 10,000	\$...	\$...	\$ 10,000
Capital assets being depreciated:				
Building and improvements	\$ 203,301			\$ 203,301
Machinery and equipment	427,105	\$ 24,573	\$ (15,626)	436,052
Total capital assets being depreciated	\$ 630,406	\$ 24,573	\$ (15,626)	\$ 639,353
Less accumulated depreciation for:				
Building and improvements	\$ 73,583	\$ 5,415		\$ 78,998
Machinery and equipment	254,860	64,651	\$ (15,626)	303,885
Total accumulated depreciation	\$ 328,443	\$ 70,066	\$ (15,626)	\$ 382,883
Total capital assets being depreciated, net	\$ 301,963	\$ (45,493)	\$...	\$ 256,470
Governmental activities capital assets, net	\$ 311,963	\$ (45,493)	\$...	\$ 266,470

Depreciation expense was charged to Service Center administration of \$70,066, which is the total of the depreciation expense.

5. PENSION PLAN

As of June 30, 2006, the Service Center contributed to the State and School Contributory Retirement System, and State and School Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes. The Center's contribution is being paid along with Carbon County School District's payment. The information obtained from the Utah State Retirement System contains all contributions received from the School District and does not separate the Service Center's portion.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members in the State and School Contributory Retirement Systems are required to contribute 6.00% of their annual covered salary (all or part may be paid by the employer for the employee) and the Service Center is required to contribute 8.890% of their annual covered salary. In the State and School Noncontributory Retirement System, the Service Center is required to contribute 13.380% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Carbon County School District's contributions to the State and School Contributory Retirement System for the years ending June 30, 2006, 2005, and 2004, were \$32,402, \$35,812, and \$27,480 respectively and for the Noncontributory Retirement System the contributions for June 30, 2006, 2005 and 2004 were \$1,716,379, \$1,714,282, and \$1,524,877, respectively. The contributions were equal to the required contributions for each year.

The Service Center's percentage of total contributions for June 30, 2006 was 6.05% for the Public Employees Contributory Retirement System and 10.07% for the Public Employees Noncontributory Retirement System. The amounts have been adjusted to reflect only the Service Center's approximate percentage.

6. BUDGETARY COMPLIANCE

For the year ended June 30, 2006, Southeastern Education Service Center had unfavorable budget variances of \$292,108 in service center administration and \$166,550 in operations and maintenance of facilities.

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MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Superintendents
Southeast Educational Service Center
Price, Utah 84501

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based
on an Audit of Financial Statements Per-
formed in Accordance With Government
Auditing Standards

We have audited the financial statements of Southeast Educational Service Center as of and for the year ended June 30, 2006, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing".

Price, Utah

November 22, 2006

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Board of Superintendents
Southeast Educational Service Center
Price, Utah 84501

RE: Report on Compliance With Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Southeast Educational Service Center with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements, laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures disclosed no instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Southeast Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

SMUIN, RICH & MARSING



Price, Utah

November 22, 2006

SOUTHEAST EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL CFDA NUMBER	GRANT OR PASS THROUGH GRANTOR'S NUMBER	PROGRAM OR AWARD AMOUNT	CASH/ACCRUED (DEFERRED) REVENUE AT JULY 1, 2005	RECEIPTS OR REVENUE RECOGNIZED	DISBURSEMENTS/ EXPENDITURES	CASH/ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2006
U.S. DEPARTMENT OF EDUCATION						
Direct program:						
84.342	*	\$ 1,421,049		\$ 507,798	\$ 507,798	
84.215	*	1,124,058		340,871	340,871	
Passed through local School District:						
84.357		40,000		15,093	15,093	
Total Department of Education						
		\$ 2,585,107	\$...	\$ 863,762	\$ 863,762	\$...
Total Federal Assistance						
		\$ 2,585,107	\$...	\$ 863,762	\$ 863,762	\$...

* Tested as Major Program

**SOUTHEAST EDUCATIONAL SERVICE CENTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of program activity of the Service Center's federal award programs and does not necessarily present transactions that would be included in financial statements of the Service Center presented on the modified accrual basis of accounting, as contemplated by generally accepted accounting principles

**SOUTHEAST EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Southeast Educational Service Center.
2. There were no reportable conditions or material weaknesses disclosed in internal control by the audit over the financial statements.
3. No instances of noncompliance material to the financial statements of Southeast Educational Service Center were disclosed by the audit.
4. There were no reportable conditions or material weaknesses in internal control over major programs disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs for Southeast Educational Service Center expresses an unqualified opinion.
6. The audit of Southeast Educational Service Center's major programs disclosed no audit findings relating to major programs that the auditor is required to report.
7. The programs tested as major programs included:

<u>Program</u>	<u>CFDA#</u>
Technology Merit	84.342
Literacy Improvement in Rural Schools	84.215

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Southeast Educational Service Center was not determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**SOUTHEAST EDUCATIONAL SERVICE CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

Southeast Educational Service Center had no prior audit findings that were required to be reported in the previous audited financial statements.

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Superintendents
Southeast Educational Service Center
Price, Utah 84501

RE: Report on Legal Compliance with Applicable
Utah State Laws and Regulations

We have audited the basic financial statements of Southeast Educational Service Center for the year ended June 30, 2006, and have issued our report thereon dated, November 22, 2006. As part of our audit, we have audited the Service Center's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit guide for the year ended June 30, 2006. The Service Center received the following major State assistance program from the State of Utah:

Minimum School Program (State Office of Education)

The Service Center also received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, this programs was subject to testwork as part of the audit of the Center's financial statements.)

Support for Literacy (State Office of Education)

Our audit also included testwork on the Service Center's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Cash Management
Purchasing Requirements

Budgetary Compliance
Other General Issues

The management of Southeast Educational Service Center is responsible for the Service Center's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate letter dated December 18, 2006. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Southeast Educational Service Center, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Laura Rich Marsing".

Price, Utah

November 22, 2006

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

December 18, 2006

Board of Superintendents
Southeastern Education Service Center
Price, Utah 84501

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Southeastern Education Service Center for the year ended June 30, 2006.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems policies and procedures, this memorandum should not be considered all inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

BUDGETARY COMPLIANCE

Utah law prohibits officers and employees of the Service Center to incur expenditures or encumbrances in excess of the total appropriations for any fund. The Service Center has overspent the following funds in the current fiscal year:

General Fund

We recommend the Service Center review the expenditures made, with the adopted budget, to determine if the budget of the General fund is being overspent.

Service Center's Response

We understand that we are prohibited from exceeding our adopted budget. We have had government funding sources that have increased our expenditures significantly and the budget was not re-opened to account for these increases. We will monitor and make the necessary changes in the future budget if needed.

SUMMARY

We feel the accounting procedure mentioned above is an area where the Service Center can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING



Price, Utah

December 18, 2006